

GAINESVILLE GREEN COMMERCIAL CENTER ANALYSIS

7721 OLD CAROLINA ROAD, GAINESVILLE, VA

by
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A practicum thesis submitted to Johns Hopkins University in conformity with
the requirements for the degree of Master of Science in Real Estate

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EXECUTIVE SUMMARY

GAINESVILLE GREEN COMMERCIAL CENTER

FitzDevelopment, Inc. is a development management company based in Falls Church, Virginia and is looking to joint venture with the landowner (Zetlin Trust) and a group of investors on a proposed commercial shopping center in Gainesville, Virginia, to be known as the Gainesville Green Commercial Center. A joint venture entity would be established to develop the 17.2 acre undeveloped land located on Lee Highway (U.S. Route 29) at the intersection of Old Carolina Road in Gainesville, Va. Gainesville is located in Prince William County, approximately 35 miles southwest of Washington DC. Lee Highway, which fronts the site, is the primary north-south highway connecting Washington D.C. and Charlottesville, VA. The site is approximately three (3) miles west of Interstate 66 located directly across the street from the Wegmans anchored Shops at Stonewall shopping center and near to the affluent neighborhood of Lake Manassas, the Robert Trent Jones Golf Club, and the Stonewall Golf Club. Traffic counts are approximately 57,000 cars per day on Lee Highway fronting the site.

Gainesville Green Commercial will be an 81,600 s.f. neighborhood shopping center that will include a 55,000s.f. anchor, 9,600 s.f., 14,000 s.f. pharmacy, and a bank pad. In addition, the project includes a future component of possible land for sale to a residential/commercial developer that may be looking to develop to the east of the property. A preliminary Letter of Intent has been negotiated with Fauquier Bank for the proposed bank pad at this center.



As a result of the experienced marketing and development expertise by the FitzDevelopment staff with their involvement at the Shops at Stonewall and Somerset Commercial, we are very familiar with retail activity and development aspects in the Gainesville market. There are a few anchors, including Kohl's, Baby's-/Toy's-R-Us, and LA Fitness that have and are expressing interest in the market. This center would play off the synergy created by having the Shops at Stonewall anchored by Wegmans, Bed Bath, Ross, Michaels, and Staples directly across the street.

There are a number of other competing retail shopping centers in the market and a handful of alternative sites being marketed for anchor and larger uses. A summary of the competing and projected centers in the market is included in the Competitive Environment section of this study.

DUE DILIGENCE

Due diligence material on the proposed site is based on existing county records, maps, and field inspections. Further investigations of the subject site inclusive of civil survey, metes and bound study, environmental, geotechnical, and wetland/streamway delineation aspects. A zoning amendment would be required to a commercial designation for the development of our project use and we would need to obtain Special Use Permits (SUP) for the drive-thru uses, which are regularly approved. A meeting with Prince William County and the Virginia Department of Transportation is needed to refine the requirements for offsite work on Lee Highway and Old Carolina Road.

TIMING / CONTACT STATUS

FitzDevelopment, Inc. is in preliminary negotiations on a Joint Venture Agreement (JVA) and Purchase and Sale Agreement (PSA) with the seller (Zetlin Irvin R. Trustee), anticipated to be executed in January 2011. The seller will be paid \$500,000 at site plan approval and will also participate in a joint venture corporation structure in which they will receive 60% of all revenue. There is no deposit anticipated for the project. Full costs of development entitlement design and permitting would be on FitzDevelopment, Inc and the group of investors to pay for. Upon successful site plan approval, a construction loan will be put in place for the development costs anticipated. The land value held by the JV corporate entity would serve as full collateral for the construction loan. FitzDevelopment and the investors would be paid back on their initial development entitlement costs thru the construction loan. For the estimated \$650,800 of predevelopment funds required to get thru site plan, FitzDevelopment will contribute 10% of the required pre-development equity (\$65,080) and a group of eighteen (18) Investors will contribute the remaining \$585,720 at \$32,540 per investor and act as general partner to the deal. In addition to being paid back for the pre-development cost investment from the construction loan, the pool of eighteen (18) investors will receive 24% of the future revenue stream from rent and sale, and FitzDevelopment will receive 16% of all future revenue stream and sale proceeds. Sale of the property is anticipated to be done in 2017.

	Equity Req. Pre-Develop	Equity Req. Const	Split of Rent, Sale proceeds	NPV of Investment @ 10% Hurdle
General Partner #1 (18 Investors)	\$ 585,720	\$ - 0 -	24%	\$1,581,263
General Partner #2 (Land Owner)	\$ -	\$ 1,980,125 (\$\$\$ = Land)	60 %	\$4,466,629
Managing Partner (FitzDevelopment)	\$ 65,080	\$ - 0 -	16%	\$1,077,366 (Less Dev actual costs)
	\$ 650,800	\$ 1,980,025	100%	

An initial study period of 90 days will begin following the execution of PSA and JVA. Following the successful due diligence and marketing aspects of the project, the project will move forward through a zoning amendment and SUP approval process. In Prince William County, a Rezoning process can take 8-12 months and an SUP can take 6-10 months. This will follow with site plan processing and further construction. The development schedule is further outlined below.

Land Purchase Negotiations:	1mo (January 2011)
Initial Land Study and Tenant Prospecting:	3 mo (Feb-April 2011)
Final Purchase Agreement Negotiations	1 mo (May 2011)
Re-Zoning Approval:	March 2012
Special Use Permit Approval:	September 2012
Site Plan Approval:	January 2013
Land Closing:	January 2013 (Varies)
Construction Start:	January 2013
Anchor Pad Delivery:	April 2013
Anchor Opening:	October 2013
Project Stabilization:	Spring 2014

DEBT SUMMARY

A construction loan at the lesser of 80% of Loan to Costs, or 70% of loan to value for a term of 2 years at an interest rate of 6.3%. A permanent loan will be put onto the property with a 70% LTV on a 30 year loan with a 6.2% interest rate.

PROJECT ISSUES

See Discussion section of the report for further analysis.

1. Zoning Change Approval
2. Land Negotiation.
3. Special Use Permit
4. Leasing
5. Competitive Environment
6. Off-site and Rezoning Proffer requirements.

In conclusion, despite the volatile economic environment, the Gainesville Green Commercial site is located in an area of strong growth and demographics. The site is well-positioned to succeed given the strong management, ideal location, pre-leasing, and the fundamental strength of the Prince William County and Washington DC markets.

PROPERTY DESCRIPTION

Proposed Use

The proposed use of this analysis is to determine the feasibility and outline a development strategy for an investor in developing the property located at 7721 Old Carolina Road, Gainesville, VA, which is currently a vacant forested lot. Appropriate use is defined by the most profitable, but also the most practical use of the site. Preliminary data analysis suggests that the best use of the property is that of a retail facility. Specifically, the analysis will evaluate the aforementioned market and finance data and render an opinion for a future retail development strategy.

Property Description

Gainesville Green is a vacant forested 17.2 acre parcel located at the signalized intersection of Old Carolina Road and Route 29 owned by Zetlin Irvine Trustee. The site is located in Prince William County (PWC) at 7721 Old Carolina Road, Gainesville, VA 20155 (Brentsville District) approximately 3 miles south of I-66. Gainesville, Virginia is a western suburb of Washington DC, in Prince William County, with easy access to Rt. 66 that leads to Washington DC (32 miles) and to Warrenton from Rt. 29 (12 miles). The site is located near the border of the Town of Haymarket. ⁽¹⁵⁾

The property is zoned A-1 (Agriculture), and has a stream that runs through the middle of it. Zoning of the stream and associated buffer would be considered ER (Environmental Resource). The long-range master plan for the property is SRL (Suburban Residential Low). The SRL district is intended for low use residential aspects with 1-4 lots per acre. Maximum Floor Area Ratio (FAR) in A-1 is 25% with one dwelling unit permitted per lot. The maximum height of a building is 35 feet. ⁽³⁸⁾ The property is currently being marketed for sale by Norman Realty (See **Appendix 1**). Existing zoning and long-range use maps are available in **Appendix 16 and 17**. ⁽¹²⁾

The property is currently owned by the Zetlin Irvine R Trust, and was purchased in 1974 for the amount of \$46,500 by Zetlin Irvin and later transferred over to his trust in 1990. See **Appendix 6** for the property tax assessment summary. ⁽⁶⁾

Project Schedule

The development team has prepared a preliminary schedule for a commercial retail project use based on discussions with PWC staff and the development teams' experience of re-zoning and permitting in PWC. The development schedule is outlined below and further provided in **Appendix 3**.

Land Purchase Negotiations:	1mo (January 2011)
Initial Land Study and Tenant Prospecting:	3 mo (Feb-April 2011)
Final Purchase Agreement Negotiations	1 mo (May 2011)
Re-Zoning Approval:	March 2012
Special Use Permit Approval:	September 2012
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Land Closing:	January 2013 (Varies)
Construction Start:	January 2013

Anchor Pad Delivery:
Anchor Opening:
Project Stabilization:

April 2013
October 2013
Spring 2014

Subject Property Photo and Map ^(14,67,68)

Project photos are shown here with the site indicated as (A) in the below map.



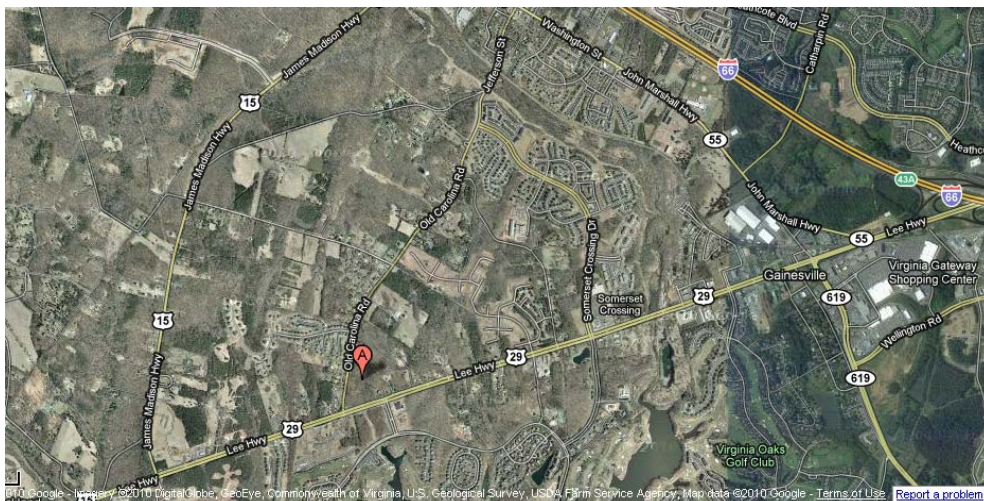
View on Old Carolina Rd. to West



View on Old Carolina to East



View on Rt. 29 looking at Property



MARKET ANALYSIS

Location and Primary Trade Area

In determining the primary trade area, a variety of factors including built barriers, population density, traffic patterns and congestion, political and social boundaries, psychological barriers and development size/use.

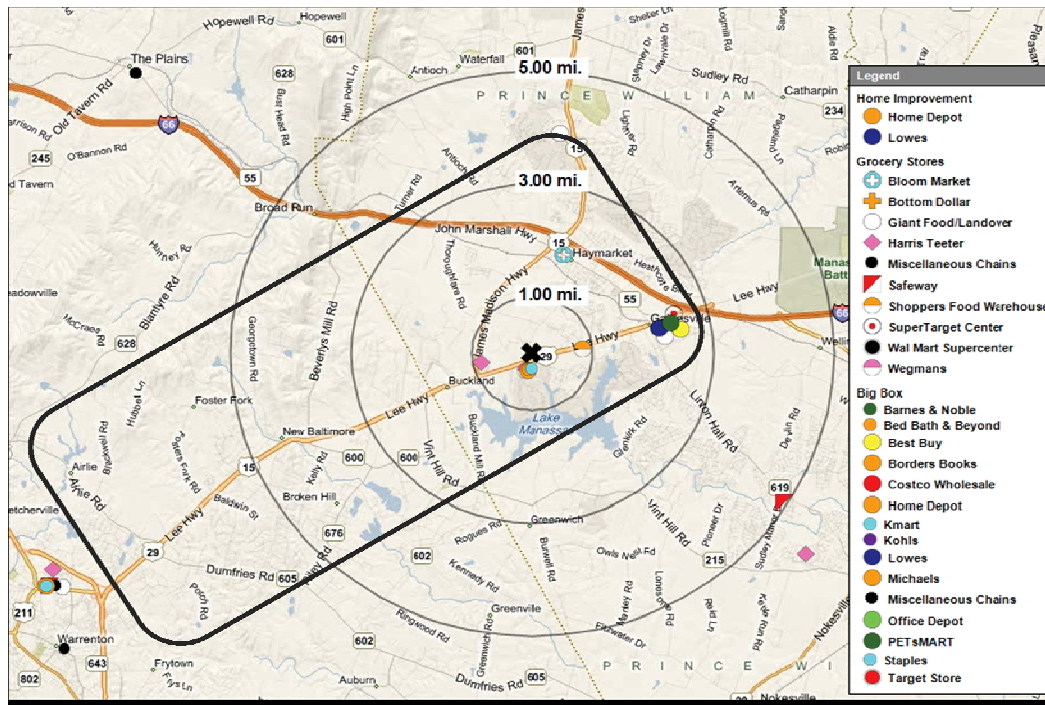


Figure 1 - Primary Trade Area Map ⁽¹³⁾

1. Built Barriers:

Access to the site is well served with points of ingress from Old Carolina Road. The property will be bordered on the south by Old Carolina Road and from the East by Rt. 29. The parcels across Old Carolina to the South are residential, but are long range planned to be CEC. Though the property is 17.2 Acres, a stream and its buffer traverses through the property which creates a usable area of approximately 8.4 acres to the west of the stream along Old Carolina Rd., 7.4 acres of stream environmental resource area, and 1.3 acres to the east of the stream. This creates a restricted area internally on the project and makes it difficult to develop the project to the east of the stream, making that narrow side of the stream virtually unusable when you combine it with any buffers on that side.

To the north and east of the project, Rt. 66 creates a constructed barrier to the trade area, as people would travel to the closer Virginia Gateway and places closer to DC more easily accessible by I-66. To the South, Lake Manassas creates a natural barrier. To the Southwest, there are no barriers till you reach the City of Warrenton.

2. *Population Density:*

The population density is outlined below in Table 1. The population summary suggests significant population growth has happened in the Gainesville area and is projected still in the near future. A population and demographic study is shown in **Appendix 13.** ^{(1) (13)(25)}

TABLE 1: POPULATION DENSITY SUMMARY

Population:	1990	2000	2010	2015	2030
1 mile	651	939	2290	3,230	
3 mile	4,804	8,850	23,570	33,053	
5 mile	12,057	19,402	48,489	66,407	
PWC	215,686	280,813	393,183		535,629

With the population commuting from the South to the North, the average commuter will hit shopping at Madison Crescent and the Shops at Stonewall/This Site before they will get to the congested area closer to Rt. 29 and Rt. 66. With the construction of the Shops at Stonewall in 2008, an additional retail shopping focal point shifted to the south directly across the street from the site. Population densities on the other side of I-66 will tend to shop at the closer Virginia Gateway shopping center.

3. *Traffic Congestion:* ⁽¹³⁾⁽¹⁵⁾⁽¹⁶⁾

According to the Virginia Department of Transportation (VDOT) 2008 traffic counts, the traffic on Rt. 29 through Gainesville was approximately 57,000 vehicles per day, and is expected to increase to 87,000 by 2035. Large amounts of commuter traffic from Warrenton and South to Washington DC go past the site on Rt. 29 on its way to I-66 and points towards Washington DC. It is not uncommon for morning traffic going to Rt. 66 to back-up to 2 miles from Rt. 66 (1 mile east of this project) on Rt. 29. As such, the average travel time to work for commuters is 35.6 minutes, with 34% having a commute longer than 45 minutes. With much of the population commuting out of the area, uses that survive on a weekday traffic flow, such as a daytime restaurant, may experience difficulty in establishing themselves in this market.

The site is located directly across the street from the Shops at Stonewall (Wegmans anchored) which currently attracts retail shoppers to the immediate vicinity. The main trade area of the subject site is increased due to the ability to play off this adjacent retail uses and functions as a larger power center use density. The project site is located on the PM traffic side of Rt. 29.

Currently, VDOT is in the process making improvements to Rt. 29 / Rt. 66 / Linton Hall road that are anticipated to continue into 2012. A substantial amount of work has been completed on Rt. 66 and Rt. 29 since the project began in 2008, but there is still substantial more to be done here including a fly-over on Rt. 29 onto Linton Hall Road. As such, the congestion and construction in this area may make a shopper coming from the southwest reluctant to drive past this site to Virginia Gateway Shopping Center. Shoppers would utilize the more convenient shopping experience to the South at Stonewall and this site versus going into the congested areas by Virginia Gateway and Somerset Crossing. ⁽¹⁷⁾

The nearest public transportation (Amtrak) is 9 miles away in Manassas; public airport is Dullas International (15 miles), and there is no current bus service. Public transportation is not currently used as a high option in the market.

4. *Political Boundaries:*

The property is situated very close to the border of PWC and Fauquier County. The county delineation line is approximately 1.5 miles to the southwest of the site along Route 29. The normal commuter that goes by the site on Rt. 29 lives to the southwest of the property. PWC is a closer proximity to Washington DC and has more development infrastructure aspects in place when compared to Fauquier. Most retailers would look to locate their employment and shopping centers inside the Prince William County area as opposed to being in what is viewed as a tertiary market in Fauquier County.

The area around the site also identifies itself with the upscale golfing around the site at Robert Trent Jones (where the President's Cup is played on occasion), Stonewall Golf Course, and Virginia Oaks Golf Course. These uses have attracted a more affluent and higher salaried demographic, which retailers would prefer to locate towards.

5. *Social Boundaries:*

Because communities identify with their surroundings, they typically like to shop and dine in their neighborhoods as well, in addition to the growing matter of convenience. The primary trade area of the site is defined by Lake Manassas to the East, Rt. 29 and I-66 to the North, Rt. 15 to the West, and Warrenton to the South. People from Warrenton and the surrounding areas will typically travel to the Gainesville to shop due to the minimal supply of retail available in Warrenton and the far outlining areas of Fauquier County. People to the East of Lake Manassas and North of I-66 will most likely travel to Virginia Gateway or Manassas to shop.

6. *Psychological Barriers*

The primary trade area is defined mainly by the access to Rt. 29, and the traffic congestion that flows along this corridor. The 10-15 minute travel distance to Warrenton from the subject site is about the limit that a shopper will normally travel due to convenience. Shoppers from the south and west will be more apt to shops at this center than to venture into the I-66/Rt. 29 area by Virginia Gateway due to the high number of traffic signals, and overall congestion in that area. Likewise, shoppers from the North and east would not typically commute across this density to get to the subject site.

Secondary Trade Area Delineation

The secondary trade area extends into areas of Fauquier County due in large part to the shopping outlets and presence of Wegmans across the street. There is also shopping and limited dining at Warrenton that accounts for some leakage. Having to navigate miles, a variety of traffic lights, and busy highways for essentially Class B retail has a declining return as you travel further South along Rt. 29. Although the presence of Wegmans in this vicinity creates demand due to high owner tenure in the surrounding area, consumers from Warrenton, Fauquier County are less likely to travel here for entertainment, food, and banking needs.

Site Characteristics

The site itself has some sharp changes in contours as it slopes from Old Carolina Road down to the stream that traverses the site. The site is heavily wooded with a stream traversing down the middle of the property. From the Prince William County GIS mapping, the site has an ER (environmental resource) traversing the site in the area of the stream, and also is located in Highway Overlay Corridor District (HCOD) pre 1980 district. Development aspects of building orientation, signage, traffic flow, and other factors will need to be taken into consideration into such any development. ⁽⁶⁸⁾

Description of Site and Adjacent Parcels

The property is a vacant forested lot. Directly across the street on Old Carolina Road to the east are older single family residential homes on half to acre and half lots. Two of the lots (7804 Old Carolina Road and 15500 Lee Highway) on the other side of Rt. 29 currently are on the market for sale. The property is abutted by Rt. 29 to the south, with the Shops at Stonewall shopping center directly across the street. This center is anchored by Wegman's, and has Bed Bath, Michaels, Ross, and Staples, 40,000sf of small shops, 2 bank pads and three (3) restaurant pads. Property to the North and east are residential property. ⁽⁶¹⁾

Zoning & Long Range Use Plans ⁽¹⁾

The subject property is currently zoned agriculture (A-1). The existing long range use plan for the subject property is Suburban Residential Low (SRL). In the summer of 2010, an initiative for a comprehensive plan amendment was started by Prince William County for the subject property and the surrounding area to change 103.17 acres, including the 17.2 subject site, to a long range designation of community employment center (CEC). The PWC staff report for the Gainesville Green site area long range use classification change is shown in **Appendix 2**. Though the action was never taken up and is pending an actual zoning modification, the preliminary recommendation from staff was to “*Not Approve*” the long range zoning use change due to the large amount of CEC property currently in the area.

The commercial retail use for the property in which this analysis determines, would require the subject property to be rezoned to a CEC type use. Directly across from Old Carolina from the subject site a large area currently long range planned to be CEC as shown in Figure 3 below. Initial review and discussion of the rezoning effort with legal land use attorney Pete Dolan of WCLEW, indicated that a commercial designation could be supported if the correct development plan was put forth with some corrections to the access and road construction for Old Carolina Rd. incorporated. Based on connection to the CEC directly across the street, it stands to reason that ER zone that traverses the site would be a logical buffer for any CEC use. During an initial study phase, it would be appropriate to meet with Wally Covington of the Prince William County Board of Supervisors, who is the representative from the Brentsville District. ⁽¹⁾⁽⁷³⁾ (See also **Appendix 16 and 17**)

Figure 2 - PWC Existing Zoning Map

Figure 3 – PWC Long Range Use Plan

Figure 4 - Proposed Gainesville Green Long Range Use Plan

Visibility and Accessibility Evaluation ⁽²⁾⁽³⁾

Access to the site is obtainable from Old Carolina Road, immediately next to the signalized intersection of Rt. 29 and Old Carolina Road. The signalized intersection here gives it an ideal location and access point for the development that retailers would want. The signalized access here would give a location for traffic coming from both sides of Rt. 29 to easily and safely access the site. Rt. 29 is well constructed and minimal improvements would be required. It should be anticipated that land will need to be dedicated and the construction of a frontage lane would be warranted for a fourth lane across part of this project's frontage to facilitate a future thru lane. The dedication and construction of the frontage lane was an item that the Shops at Stonewall had to do in connection with the SUP and zoning approval. This would result in having to adjust the traffic signal location on the development property. Improvements to Old Carolina road should be anticipated to be required to provide adequate access to the site for purposes of access for trucks and other vehicles to the site. Old Carolina road makes a sharp turn as it approaches to Rt. 29 and this should be considered for any commercial development plans. Scopes of these items are further defined in the Construction section of this report. The subject site fronts Rt. 29 and has great visibility from this road. A monument sign prominently displayed on Rt. 29 would serve to provide good signage and visibility on the project property.

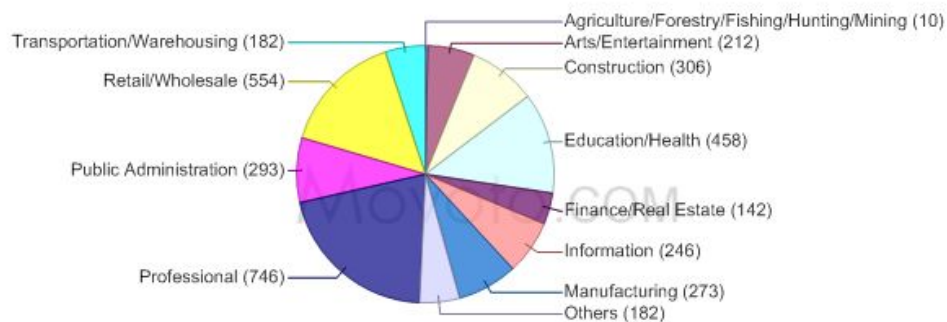
EMPLOYMENT AND ECONOMY

Employment by Industry and Household Income^{(13) (19) (20)(22)}

Employment sectors within a five mile radius, or ten minute drive, of the subject site represent 1,224 businesses with 11,529 employees. Approximately 75% of the residents in this area have white collar jobs, and 25% have blue collar jobs. Employment in this area is the highest in the Service / Administrative Sector (63.5%), then Sales/Retail (10.5%), Construction (8.7%), and Production & Transportation (7.4%).

Civilian Employment Summary for Gainesville, VA

Civilian Employment Industry

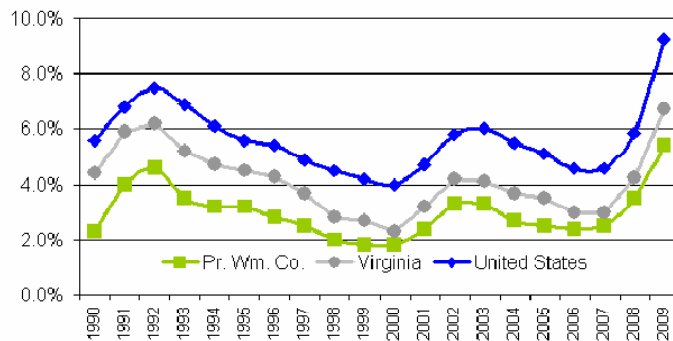


The average household income in a 1 mile (\$128,461), 3 (\$122,721), and 5 mile (\$122,082) radius of the site is very high compared to the US national average of 62,802, State of Virginia at \$56,373, and Prince William County at \$112,030. Prince William was ranked #14 in the nation as the highest median income in 2008. Neighboring Fairfax County and Loudoun Counties were ranked #1 and #2, and Fauquier County had a household income of \$113,040. The site is located in a strong demographic market for household income.

Historical Unemployment Rate⁽¹⁸⁾⁽²⁰⁾

While historical unemployment data was not available for the subject site defined above, data for Prince William County was made readily available through the US Bureau of Labor Statistics. Unemployment has remained consistently low during this recent recession in PWC at 5.3% (Sept 2010) and 5.5% (Sept 2009). While it has trended upwards recently during the current 2008-201X Recession, the 5.5% is substantially lower than that of the nation or state average, mainly due to PWC close proximity to Washington DC. Given the future population and job growth in PWC projected, it is anticipated that unemployment will remain low and will continue to fall as the region and nation come out of the current recession.

Average Annual Unemployment Rates 1990-2009 Prince William County, Virginia, United States



Source: Virginia Employment Commission. LAUS data;

Commuting Patterns of Area Workers ⁽¹³⁾

The average commute time for residents within 5 miles of the site to and from work is approximately 35.6 minutes each way. 80.1% prefer to commute in a car by themselves, and 12.1% carpool. Mass and public transport options are limited in the area, and only 1.6% of the population utilizes it to commute. Approximately 4.6% work from home.

10.6% of the population within 5 miles of the site has an average commute time of less than 15 minutes to or from their place of employment. 25.8% of the population has a commute time of 15 to 29 minutes. 26.6% travel to work is 30 to 45 minutes and 18.7% have a commute time in excess to 60 minutes.

Much of the commute begins south of the site along Rt. 29 and goes past the site as it heads north to I-66. Often, back-ups from the AM commute begin around Somerset Crossing Drive, approximately 1 mile to the North on Rt. 29. It is anticipated that with the completion of intersection improvements in 2012 by VDOT at Rt. 29 / Linton Hall / I-66, that commuting times may go down slightly. However, much of these delays stem from the relatively slow traffic flow that results along I-66 towards Washington DC, begins in Gainesville. In the PM Commute, traffic on I-66 begins in Gainesville and backs up along I-66 stemming back from the Gainesville area.

National Economy Market Overview ^{(23)(25a)}

National economic indicators highlight an economy that is far from healthy, though some areas appear to be improving. Real Gross Domestic Product (GDP) is the broadest measure of economic activity in the United States and is a reliable indication of the overall strength and performance of the national economy. The nations' 2nd Quarter 2010 GDP (revised) registered a 1.7% increase (quarter over quarter) following on the 1st Quarter 2010's GDP 3.7% and the 4th Quarter 2009's 5.0%. The expansion of the nation's economy is tempered by the understanding that a large part of the growth is the result of federal stimulus spending and reduced business inventories; many analysts predict growth to continue to be moderate in 2010. And, to date, important indicators, like housing, auto sales and consumer confidence continued to be stubbornly down.

Job Market – First time unemployment claims continue stubbornly above 450,000 per week. Unemployment rates—considered a lagging indicator of sorts, hovered near the milestone marker of

10% throughout the quarter. Non-farm payrolls declined by 95,000 in September and by 218,000 for the quarter. Government employment fell by 159,000 in September. A decline in federal government employment was due to the loss of 77,000 temporary Census 2010 jobs. As of September, about 6,000 temporary decennial census workers remained on the federal government payroll, down from a peak of 564,000 in May. Employment in local government decreased by 76,000 in September with job losses in both education and non-education. Employment in construction edged down (-21,000) over the month, that partly offset an employment gain in August. Both the August and September changes were concentrated among nonresidential specialty trade contractors. Construction employment has shown little net change since February. Fears are that the momentum in the labor sector is trending in the wrong direction. High unemployment rates continue to be a major concern and may be for some time to come.

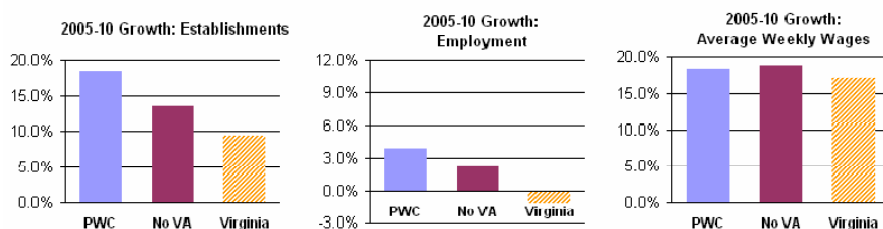
Prince William County Economy ^(25a)

Prince William County economic indicators as a whole were mixed. At-place employment numbers in the 1st Quarter 2010 declined quarter over-quarter (not unusual, following the end of the holiday season) but increased year-over-year. Average weekly wages for jobs in the county was unchanged year-over-year, but continue to lag behind the region or the state. Unemployment rates, while outperforming state and national rates, are still well above contemporary trends, reaching levels last seen in the 1990's. The housing market continues to show signs of stabilization, though full recovery is still unpredictable. Commercial vacancy rates, while improved in the 3rd Quarter 2010 from the previous quarter, are still elevated particularly in the retail market. Retail sales have improved significantly, but consumers may still be nervous regarding big ticket purchases. During the 3rd Quarter 2010, the local economy continued to outperform the national economy in terms of unemployment rates, the housing market and retail activity, but is underperforming in terms of historic expectations.

Establishments, Employment and Wages ^(25a)

According to data from the U.S. Department of Labor and the Virginia Employment Commission, Prince William County has outpaced regional, state and national economies in businesses, and job growth over the last five years and has outpaced the state, but not the region for at-place average weekly wage growth since 2005. Year-over-year, Prince William County outpaced the region and the state for growth in establishments and jobs, but trailed both the region and the state in average weekly wage growth. In 2010 (1st Quarter), there were 7,266 establishments reported in Prince William County, a growth rate of 2.1% year-over-year and 18.1% since 2005. By comparison, Northern Virginia establishments grew by 1.3% in one year and 13.6% since 2005; statewide, establishments grew by 0.8% in the last year and 9.3% since 2005.

At-Place Establishments, Jobs & Wages 2006-10 Pr. Wm. Co., No. Virginia and Virginia



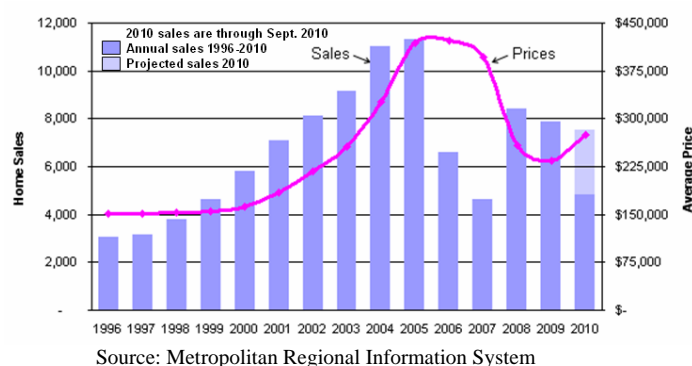
Source: Metropolitan Regional Information System

At-place employment in Prince William County (100,250 in the 1st Quarter 2009) increased by 0.6% year-over-year and by 3.9% since 2005. By comparison, Northern Virginia employment declined by 0.9% in the last year but grew by 2.3% since 2005. Employment in Virginia declined by 2.1% in the last year and by 1.1% since 2004. The average weekly wage in Prince William County (\$773 in the 1st Quarter 2010) was unchanged since 2009, but grew by 18.2% since 2005. At-place average weekly wages in Northern Virginia (\$1,298 in the 1st Quarter 2010) grew by 2.2% in the last year and 18.8% since 2005. In Virginia, weekly wages grew by 1.3% in the last year and 17.2% since 2005. The impact of the housing downturn continues to be acutely felt in those industries related to housing. Construction employment, for example, declined in Prince William County by over 6,000 net jobs (-35.2%) between September 2005 and December 2009. Likewise, jobs in finance and insurance and real estate experienced a net loss of over 700 jobs (-20.2%) since their respective peak months of the real estate boom. Signs of a turnaround in the local real estate market give hopes that employment in these sectors will follow suit. Nevertheless, these industries have lost one third of all jobs since their respective peaks and continue to be troubled to date.

PWC Residential Housing Market Overview ^(25a)

According to the Metropolitan Information System (MRIS), the average sold price of a home in Prince William County in September 2010 was \$276,900, which represents an 11% increase year-over-year. The total number of units sold in August 2010 in Prince William County was 467, a 20.6% decrease year over-year. The ratio of homes on the market to homes sold in September 2010 was 5.6 compared to 4.5 in September 2009. By comparison, in December 2007, during the recent downturn, the ratio stood at 15.5. If in fact this represents the much anticipated stabilization in the local real estate market, expectations should be tempered with the probability that the market moving forward will see more modest appreciation of home values over longer periods of time.

Pr. William Co. Annual Home Sales 1996-2010



PWC Commercial Real Estate Market Overview ^(25a)

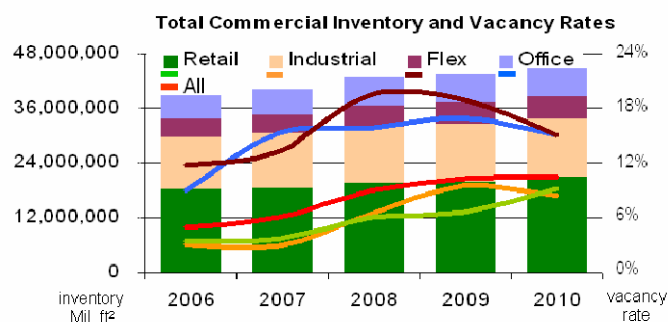
According to Costar Realty Group, 2010 continues to be a year in which growth rates in the Prince William County commercial inventory have slowed from previous years, probably in response to an overbuilt supply—both locally and regionally, increased vacancy rates and cautionary economic conditions. The 3rd Quarter 2010, however, shows some improvement over the previous quarter, in which over 5 million square feet of commercial space was reported vacant. In September 2010, the Prince William County commercial inventory included 45.1 million square feet of space in 1,659

buildings, with 4.6 million square feet of vacant space—a vacancy rate of 10.2%. This compares with June 2010, when the total vacancy rate was 11.0%.

Since 2006, some 6.2 million square feet of commercial space has been added to the inventory—a growth rate of 15.9%. Vacant space has increased by 2.8 million square feet since September 2006—a growth rate of 153% in four years. In the 3rd Quarter 2010, 1.5 million net new square feet of commercial space (including retail) was added, year-over-year, compared to 689,060 square feet the previous year. This represents a growth rate of 3.5% in the past year, down from an annual average increase of 4.0% over the last 4 years. A net total of 28 new commercial buildings (including retail) were added in the 3rd Quarter 2010, year-over-year.

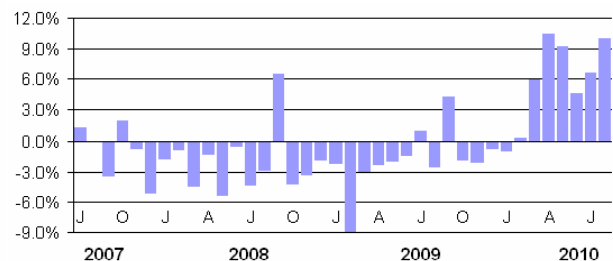
The commercial inventory includes a total of 6.48 million square feet of office space, 4.86 million square feet of flex space, 12.75 million square feet of industrial space, and 21.01 million square feet of retail space. A total of 4,588,070 square feet (10.2 percent) of vacant commercial space (including retail) was reported during the 3rd Quarter—a 0.2 percent increase year-over-year. This includes 958,603 square feet of vacant office space (14.8 percent, down from 16.7 percent one year ago), 721,406 square feet of vacant flex space (14.8 percent, compared to 18.7 percent one year ago), 1,048,797 square feet of vacant industrial space (8.2 percent, down from 9.2 percent one year ago) and 1,859,264 square feet of vacant retail space (8.8 percent, compared to 6.3 percent one year ago). Expectations are that the commercial real estate market will gradually improve over the course of the next few years, as the local economy grows.

Figure 6 - PWC Commercial Inventory 2006-2010



Source: Costar Realty Group

Figure 5 - PWC Monthly Year-Over-Year Sales Revenue Growth July 2007 – August 2010



Source: Pr. Wm. Co. Finance Dept.

PWC Retail Market Overview (25a)

Retail activity, as reflected in sales revenue generated in Prince William County has strengthened over the course of 2010. In August 2010, \$4,166,069 of sales tax revenue was generated to the County—a 10% increase over August 2009 and the seventh straight month of year-over-year increases. This increase follows a period from August 2007 to January 2010 in which 26 out of 30 months reported declining sales revenue year-over-year. Going forward into the Dec 2010 holiday season, retailers are hopeful of more robust retail activity than in the recent past.

DEMOGRAPHIC CHARACTERISTICS

Population and Household Estimates and Projections^{(1) (13) (25)}

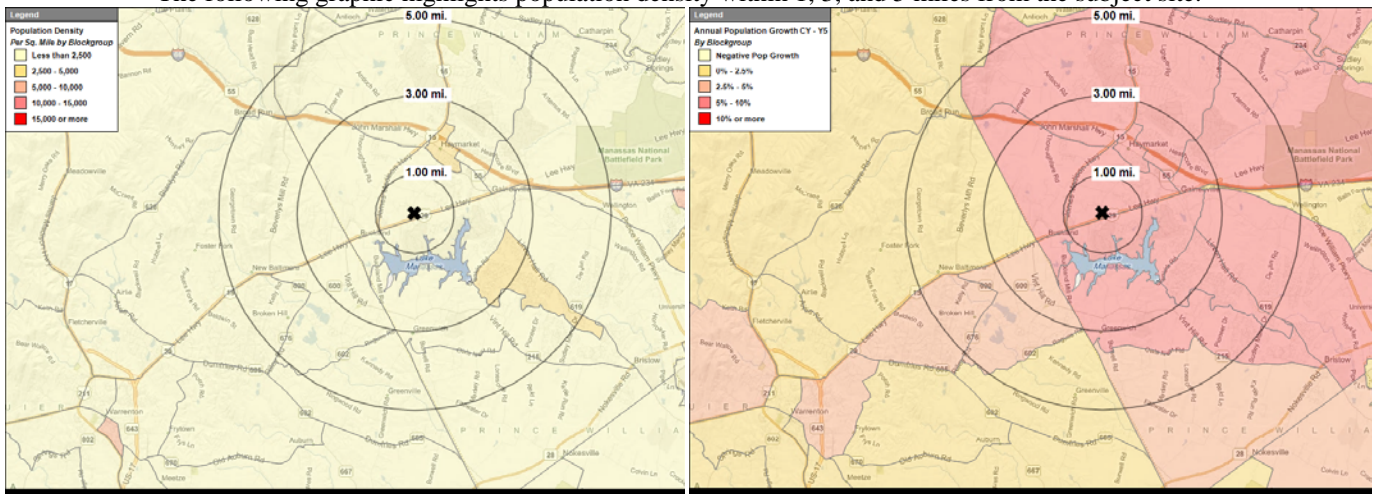
A population and demographic study is shown in **Appendix 13** and further summarized below. The anticipated growth rate of 6.5% around the site and PWC over the next 5 years represents strong population growth projections.

Population:	1990	2000	2010	2015	2030
1 mile	651	939	2290	3,230	Unavailable
3 mile	4,804	8,850	23,570	33,053	Unavailable
5 mile	12,057	19,402 (3.7%*)	48,489 (8.9%*)	66,407 (6.5%*)	83,736 (1.6%**)
PWC	215,686	280,813 (2.7%*)	393,183 (3.4%)	Unavailable	535,629 (1.6%)

* - Percent of annual population growth

** - Estimated value based on Market growth of 1.6% over 15 yr period to match broader PWC market

The following graphic highlights population density within 1, 3, and 5 miles from the subject site:

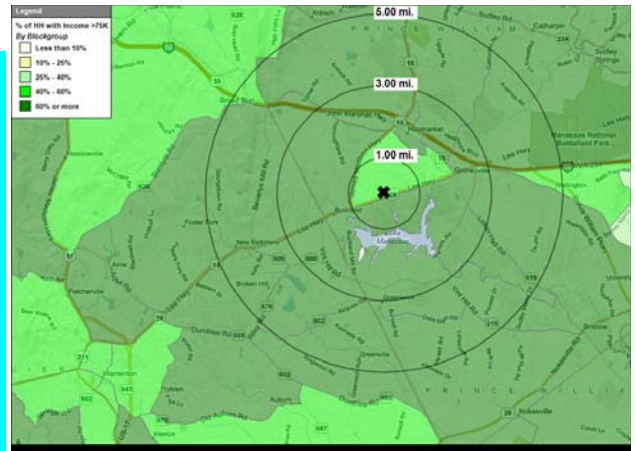
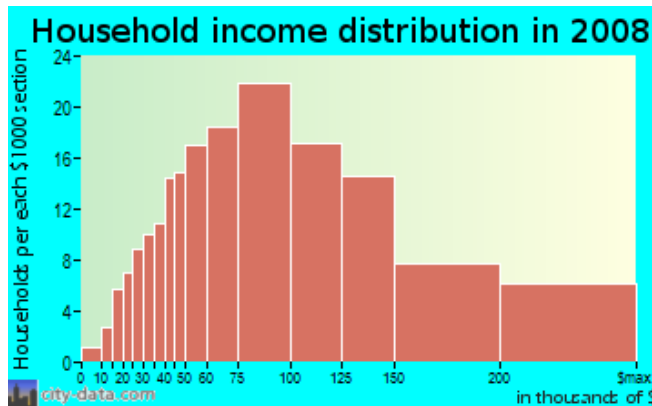


Existing Population Density⁽¹³⁾

Annual Population Growth in 5 YRs

Income Distribution⁽¹³⁾⁽²⁴⁾

Income in the Gainesville area is evenly distributed with 26.9% of the households earning from \$100k to \$150k. This is followed by 33.5% of the population which earn between \$50k and \$100k. The average household income within 5 miles of the site is \$122,082 (\$102,125 median) with a per capita income of \$42,242. By contrast, Prince William County is much less with a median income for a household at \$65,960, and the median income for a family was \$71,622. Males had a median income of \$45,595, compared to \$34,286 for females. The per capita income for the county was \$25,641



Household Income >75k ⁽¹³⁾

Race and Ethnicity ^{(25) (13)}

Results from the Census Bureau's 2009 American Community Survey indicated that 60.1% of the County's population was White, 20.4% was African American, Asian or Pacific Islander at 7.2%, 0.3% was American Indian and/or Alaskan Native, 8.9% was of other races and 3.1% was of two or more races. Approximately 18.7% of the population was of Hispanic Origin (any race). By contrast, the residents within 5 miles are predominately white (81.8%) and black (7.3%).

Race and Ethnicity in Prince William County

Reporting One Race	1990 % of Total	2000 % of Total	2009 % of Total	2010 5 miles of Site
White	83.3%	68.9%	60.1%	81.8%
Black/African American	11.6%	18.8%	20.4%	7.3%
Am. Indian/Alaska Native	0.3%	0.4%	0.3%	unavailable
Asian/Pacific Islander	3.0%	3.9%	7.2%	8.36%
Other	1.7%	4.3%	8.9%	2.61%
Reporting Two or More Race	N/A	3.6%	3.1%	Unavailable
Hispanic Origin (any race)	4.5%	9.7%	18.7%	Unavailable
Non-Hispanic (any race)	95.5%	90.3%	81.3%	Unavailable

Sources: U.S. Department of Commerce, Bureau of the Census, 1990 Census; Census 2000; 2009 American Community Survey.

Note: Percentages may not add to 100 due to rounding

In recent decades, the population of Prince William County increasingly has become racially and ethnically diverse. Between 1990 and 2000, the population of African Americans more than doubled (from 25,078 persons to 52,691 persons) and the population of persons of Hispanic origin nearly tripled (from 9,662 persons to 27,338 persons).

COMPETITIVE ENVIRONMENT

Description of Overall Commercial Market ^{(13a)(14)}

Competing Retail: The subject site is located along the Rt. 29 primary trade corridor and is part of a highly competitive area for retail. With five (5) shopping centers inclusive of over 1,817,960 sf in the primary trade area (See Table 1 below), this region is well served by retail uses. A summary of each retail store at each of the five shopping centers listed below is shown in **Appendix 14.** ^(13a)

Table 1: Shopping Centers in the Primary Trade Area:

	Shopping Center	Size (SF)	Anchors	Est. Vacancy	Dist From Site
1.	Virginia Gateway Shopping Center ⁽²⁸⁾	1,126,990sf	Target, Lowe's, Best Buy, Giant	72,348sf (6.4%) (Incl. 2 pads & 2 mini boxes)	2.2 Miles N on Rt. 29
2.	Gainesville Square	37,000sf	Rite Aid	2,000sf (5.4%)	N on Rt. 29 – 1 mi
3.	Somerset Commercial	118,725sf	Shoppers, Bonefish, Glory Days	5,200sf (4.4%)	N on Rt. 29 -0.9mi
4.	Shops at Stonewall ⁽²⁷⁾	311,245sf	Wegmans, Bed Bath, Ross	20,210sf (6.5%) (Incl 2-5k pads)	Across Street-0.1mi
5.	Madison Crescent ⁽²⁶⁾	124,000sf	Harris Teeter	3,200sf (2.6%)	S on Rt. 29-0.8mi
6.	Est. Misc Other retail in corridor	100,000sf	Bloom, CVS, McD, Burger King, Taco Bell...	varies	Varies 1.5+ miles
	Total	1,817,960sf			

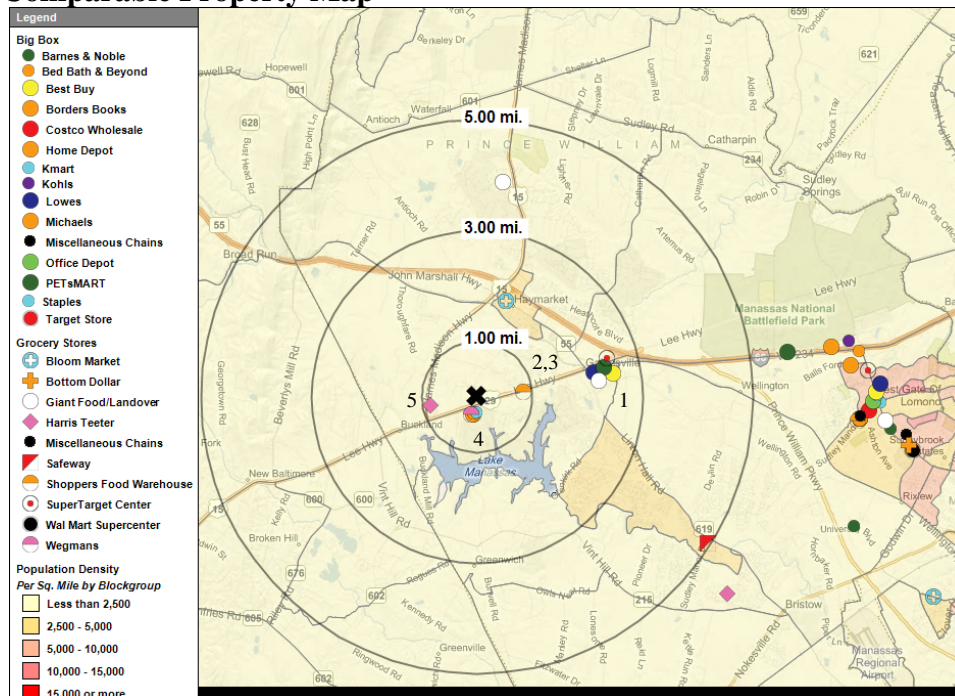
The largest density of shopping is located 2.5 miles from the subject site near the Rt. 29 and I-66 intersection. With the exception of Virginia Gateway's future Market Square Phase B (est. 500,000sf reported to be anchored by BJ's and a movie theatre) and Shops at Stonewall with a max 40k anchor, all of these centers are significantly leased and there is no room for an additional anchors to be added to accommodate a retail provider not in the market (such as Kohl's). With the completion of the Shops at Stonewall in 2008, the retail strip along Rt. 29 in Gainesville was bookended with a shopping center with significant retail presence in Bed Bath, Ross, Michaels, and Staples in addition to the premier grocery store in the area, Wegmans. This partially shifted the center of shopping to the South closer to Warrenton, and the majority of the secondary market area here. Though there is a large amount of commercial retail in the market, vacant retail space in these shopping center remains relatively low at an overall 6.0% vacancy when compared to the County average of 10%. Included in this calculation, is 4 pads which encompass almost 20,000sf at 36% of the vacancy and two (2) junior box at Virginia Gateway of 47,223sf (46% of vacancy in market - Toys-R-Us is listed as "for lease" on the Virginia Gateway project webpage).

Pads: Shops at Stonewall has two (2) vacant pads which are being marketed for an upscale sit-down restaurant, with restrictions on fast food and additional banks. Two (2) pads are available at Virginia Gateway, but due to their location on the site and corridor, they are not considered competing pads to what is proposed at the subject site. A 5 acre pad site is being marketed at Lake Manassas Rd and Rt. 29. Minimal fast food is in the market, with the exception of McDonalds and the other uses by

Virginia Gateway. A fast-food retail use at this center could be a viable use here as it would provide the fast-food operator a strategic location for fast food for consumers to the south of the site before they enter the density to the north at Rt. 29/I-66. Numerous bank pads exist in the market (2 across street at Stonewall), and any proposed bank pad use should further reviewed. Numerous bank pad operators such as Fauquier Bank, Navy Federal, Chase, Wells Fargo, are not in the market and would worth exploring during a future leasing study period.

Mini-Anchor Availability: There are two (2) mini-anchors at Virginia Gateway listed as available totaling 47,223sf. Shops at Stonewall have a future mini-anchor pad which can service up to a 40,000sf building, which is reported that Dick's will occupy.

Comparable Property Map ⁽¹³⁾



Comparable Property Profiles & Photos

The following is a summary of the existing competing properties in the primary trade area. A list of individual tenants in each shopping center is further identified in Appendix 14.

1. Virginia Gateway Shopping Center: ⁽²⁸⁾ is a 1,126,990sf shopping power center anchored by Target, Lowe's, Giant, and Best Buy owned by the Peterson Company. The shopping center has expanded from 1999 to today to include the current size (See 1A for next expansion). It is prominently located at the intersection of three major traffic arteries (Rt. 29, I-66, and Linton Hall Road) in the area and is located about 2.2 miles from the subject site. This center is the 1st shopping experience you come across as you come off I-66 onto Rt. 29 and has high end retail shopping experience. A map of the center is shown below.

Figure 7: Virginia Gateway Shopping Center



2. Gainesville Square: is a 37,000sf shopping center anchored by Rite Aid and developed and opened in 2007 by the Silver Company. It is located approximately 1 mile to the northeast on Rt. 29. ⁽²⁹⁾

Figure 8 - Somerset Crossing & Gainesville Square



3. Somerset Crossing Shopping Center: is a 118,725sf center anchored by Shoppers Food and Pharmacy, Glory Days Grill, and Bonefish. Bonefish is represents one of the few high end sit-



4. Shops at Stonewall: is a 311,245sf shopping center directly across the street from the subject site on Rt. 29. It is anchored by Wegmans, Bed Bath, Ross, Michaels, and Staples and owned by Regency Centers. There is room for a future min-anchor box which may service a 40,000sf junior anchor box. There is also room for two additional building pads, currently identified as restaurant pads. ⁽²⁷⁾



5. Madison Crescent: is a mixed use residential, office and 124,000sf retail center anchored by Harris Teeter that opened in 2007. The site is approximately 0.8 miles to the southwest of the subject site.⁽²⁶⁾

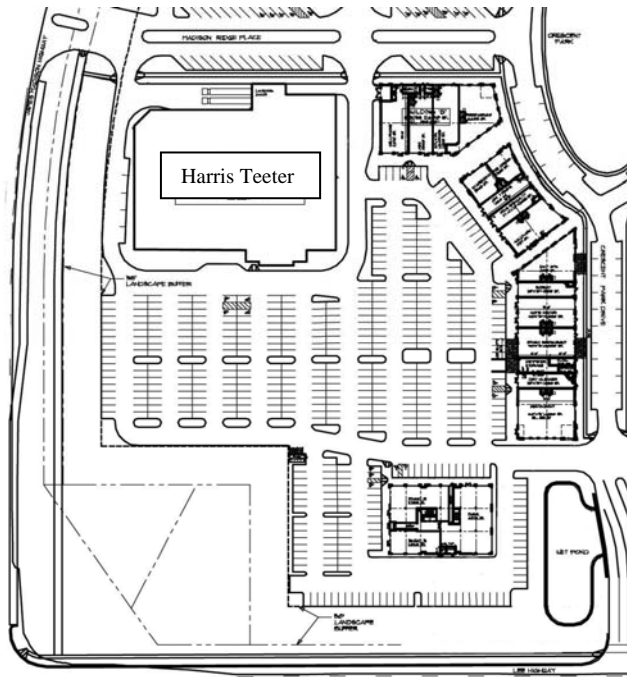


Figure 11 - Madison Crescent Site Plan

Proposed Future Developments in the Market

There is a number of property sites identified being marketed for development in the Gainesville area. A proposed +1,864,000sf (including the subject site) of future retail is proposed to be developed in the trade area in combination to the existing +1,817,960sf. With proposed plans that could double the retail square footage in the market, and having a limited number of tenants willing to expand into the market, it will become essential that any development plans at this or any subject site be done quickly in order to get proposed anchors onto the site before they land elsewhere.

- A. Grove at Gainesville:⁽³¹⁾ A 900,000 sf retail project to be located at the northeast side of I-66 and Rt. 29 which is being marketed to include a hotel, office, residential, and retail.
- B. Virginia Gateway Market Square (Phase B):⁽²⁸⁾⁽³⁰⁾ is a proposed 500,000sf expansion to the existing Virginia Gateway Shopping Center. Per a discussion with Taylor Chess of The Peterson Company, they are currently in development aspects pursuing a development with a BJ's and a movie theatre. Retail here will have a higher end focus on retail shopping "between the quality of the Virginia Gateway Atlas Walk and Fairfax Station". Initial phases of construction may begin as early as 2011 or 2012.
- C. The Shoppes at Gainesville: located at Rt. 29 and Somerset Crossing Drive/Baltusrol Road in Gainesville, Va. It is a proposed 20acre 167,000sf development that Stanberry Development was looking to develop.⁽⁶⁵⁾

D. Haymarket Crossing ⁽³²⁾: is a 217,730 sf proposed development located at the southwest quadrant of Rt. 15, James Madison Hwy and I-66 in Haymarket, VA in Prince William County. This center is in direct competition for the subject site in pursuit of Kohl's. Kohl's had previously executed a letter of intent at this site.

Availability and Cost of Prospective Sites ⁽³³⁾⁽³⁴⁾

As mentioned in the previous section. There are a number of competing sites. Per LF Jennings, building and sitework construction costs are much lower today (20-30%) in comparison to their 2007 high, but rent values have also come down as well as the duration for signing and implementing leasing deals. Per Devin Corini of Regency Centers, "land values expectations remain high on new development projects, and have yet come down to the new reality of the current recession." The value the land and the commitment of an anchor tenant will be required to make this a new project development

Tenancy Analysis

Anchors:

Grocery: With six (6) grocery stores (Wegmans, Giant, Harris Teeter, Shoppes, Bloom, Target grocery side), the market appears to be well represented by all of the major grocery stores with the exceptions of Safeway, Whole Foods, and Trader Joes. An additional grocery store to be added to the market is not recommended without further analysis, outside the scope of this study.

Boxes: The market is currently represented by Target, Lowe's. Per Devin Corini of Regency Centers, anchor stores such as Kohl's, BJ's, Wal-Mart, and Baby's/Toys R Us are reported to be looking or planning developments in the market, but have yet to happen.⁽³⁴⁾ Home Depot is not in the market. Any building over 80,000sf in size would require a Special Use Permit approval in Prince William County.⁽³⁵⁾

Pads: Shops at Stonewall has two (2) vacant pads which are being marketed for an upscale sit-down restaurant, with restrictions on fast food and additional banks. Two (2) pads are available at Virginia Gateway, but due to their location on the site and corridor off Linton Hall Road, they are not considered competing pads to what is proposed at the subject site. A 5 acre pad site is being marketed by Norman Realty at Lake Manassas Rd and Rt. 29. Additional marketing to perspective tenants would need to be done during any initial study period.⁽¹⁴⁾

Fast Food: Minimal fast food is in the market, with the exception of McDonalds and the other uses by Virginia Gateway (McDonalds, Taco Bell, and Burger King). A fast-food retail use at this center could be a viable use here as it would provide the fast-food operator a strategic location for fast food for consumers to the south of the site before they enter the density to the north by Virginia Gateway at Rt. 29/I-66.

Banks: Numerous bank pads exist in the market (2 across street at the Shops at Stonewall), and any proposed bank pad use should further reviewed. Numerous bank pad operators such as Fauquier Bank, Navy Federal, Chase, Wells Fargo, are not in the market and would worth exploring during a future leasing study period. During the course of this study, a preliminary draft LOI has been discussed and negotiated with Coleman Rector, representing Fauquier Bank

as their broker in this market. Coleman has indicated that Fauquier Bank would be interested in this site if the development were to move forward. (See **Appendix 10**)

Pharmacy: CVS and Rite Aid currently exist in the market on Rt. 29. Walgreens is in the market at Virginia Gateway. This site would bookend the other pharmacy sites to the northeast and could be a good location for a relocation of the existing CVS, or the addition of a Walgreens to this area to out position the Rite-Aid and CVS here.

Mini-Anchor Availability: There are two (2) mini-anchors at Virginia Gateway listed as available totaling 47,223sf. Shops at Stonewall have a future mini-anchor pad which can service up to a 40,000sf building. A sporting good use is not currently available in the market. Uses such as Linen's and Things, Jo-Anne Fabric, Dick's, electrical services, or large furniture stores may be viable uses in the market and further investigation should be pursued if warranted. Large gym uses such as Gold's or LA Fitness are also not represented in the market and could be a use for the site.

PROJECT DESIGN, CONSTRUCTION, & ESTIMATE

DESIGN ^{(11)(11a)}

In the development of the project analysis, John Fitzpatrick has developed a concept layout and a preliminary utility plan (See **Appendix 11 & 12**) for a commercial retail development based on a 55,000sf anchor, 9600sf retail, pharmacy, and bank. Utility information connections are based on information provided by PWCSA as shown in **Appendix 18**. John is a Professional Engineer and has managed the design on five shopping centers from design development through construction while at his current employment at Regency Centers Corporation beginning in 2002. Key elements of that design rationale are outlined as below.



(1) Existing Property Boundaries:⁽⁷⁾ A property boundary map was provided by Bohler Engineering and is shown in **Appendix 7** ("Regency Old Carolina Site Parcel Boundary Map").

- (2) Existing Grading: ⁽⁸⁾An existing topo map was provided by Bohler Engineering and is shown in **Appendix 8** (“Regency Old Carolina Site Topo Map – 2’ Contours”).
- (3) Streamway and RPA: ⁽³⁵⁾⁽³⁸⁾ There currently exists a jurisdictional stream that runs through the middle of the project. Prince William County zoning maps indicate that this as an Environmental Resource (ER) area and a 100’ buffer from the stream would be required. Initial phases of the project study would include physically locating the stream with a survey crew and performing a jurisdictional determination with the VDEQ and the Army Corps of Engineering.
- (4) Off-Site Road Improvements: ⁽³⁹⁾
- Rt. 29: the long range VDOT use plan for the corridor has three thru lanes proposed along Rt. 29 from I-66 to Rt. 15, which the frontage of the subject property is part. It is anticipated that land would need to be dedicated to facilitate this third thru lane along the frontage of the property and that the development team would need to partially widen the roadway for this additional turn lane. Full improvements here would need to be negotiated during any rezoning / special use permit process. It is anticipated in the design here and further estimates that an additional lane would be added from the intersection at Old Carolina Rd. and Rt. 29 back to the existing stream culvert at the middle of the property. The utilities (overhead Electric, and underground cable) will need to be relocated during any development process here. ⁽⁶⁹⁾
- Old Carolina Road: The intersection approach and alignment on Old Carolina Road would need to be modified to facilitate a commercial development. A traffic study would need to be performed during a study period to confirm the full extent of the requirements. It is anticipated in the design prepared by John Fitzpatrick that additional lanes will be required and approximately 0.7 acres of land will be required to be dedicated to facilitate the lane widening.
- (5) Property Set-backs: Property set-backs will be determined based on the final re-zoning designation. Per the PWC zoning code Table 8.1, the property set-backs from the residential use would be 50’ and 15’ from any roadway. During the course of the Special Use Permit process for Middleburg Bank and SunTrust Bank at the adjacent Shops at Stonewall, it was required that the set-back here be 25’ from Rt. 29. As such, a 25’ landscape buffer from Rt. 29 was utilized for this design of this development. ⁽²⁾⁽³⁾⁽³⁸⁾
- (6) Building/Site Layout and Sizes: in laying out the site, it was determined that a parking ratio of approximately 4.3 to 4.6 would be required to meet based on Kohl’s allowable parking ratios. A full survey of existing conditions, topo, streamways, and actual building boundaries would be needed during the initial study period. ⁽³⁴⁾
- a. Anchor: Kohl’s has multiple prototype layouts available with development sizes ranging from 55,000 to 82,000. A configuration was used based on conversations and a layout developed for Devin Corini that John Fitzpatrick developed while trying to lay out a Kohl’s store in the future Building D building pad at the Shops at Stonewall in August of 2010 (See **Appendix 4**). ⁽⁹⁾
 - b. Pharmacy: the layout is based on the building footprint for a Walgreens 14k store. The current layout does not show a drive thru. Some of the parking on the side of the building would need to be eliminated in order to add any required drive thru option. Loading is on the side, with trucks pulling in and heading towards the retail building, and backing up into the loading area. ⁽⁴³⁾ Additional design and parking adjustments would need to be made if the pharmacy desired to include a drive-thru component.
 - c. Bank: The footprint for a generic bank building approximately 35’ wide x 80’ was used for developing the project. Two (2) drive thru’s and by-pass lane are provided. Using a car

- depth of 20', storage for 8 cars in the first bay and five cars for the 2nd bay is provided per section 600 of the PWC zoning code. ⁽³⁵⁾
- d. Retail: Typical retail depths for buildings should be 50', 60' or of an 80' depth per Don Stedham of Regency Centers. A building depth of 80' was utilized to develop the plan. A dumpster enclosure is located at the rear corner of the building. A sidewalk is added at the rear of the building going to the dumpster, for rear access and loading.
- (7) Grading and Retaining Wall Analysis: A preliminary review of the grading was performed on the site by LF Jennings. Based on the topography of the site, it is anticipated that the site will slope from Old Carolina Road, down to the stream. Retaining walls will be needed along the EC buffer area, to raise and level the grade. Dirt will need to be imported to raise and level the grade to perform the construction work outlined here. See LF Jennings estimate in Appendix 5 for quantities. ⁽⁵⁾⁽³³⁾
 - (8) LEED: It is anticipated that the project will not pursue any LEED designation, but LEED principles will be designed into the project such that it will be designed to be LEED certified.
 - (9) Parking Analysis: A parking ratio of 4.4 is proposed for the site. A parking requirement of approximately 3.4 stalls per 1000sf of retail is required per section 600 of the PWC zoning code (See **Appendix 11**). The site was parked to meet closer with the Kohl's requirement of 4.5. ⁽⁴⁾⁽³⁵⁾
 - (10) Utilities: A conceptual utility plan was developed by John Fitzpatrick, P.E. Location of the existing water and sewer systems was provided from Prince William County Service Authority. See **Appendix 18**. ⁽⁴⁶⁾
 - a. Storm System: A preliminary storm water detention layout was developed. Storm water from the roof of the Anchor and the area behind the Anchor would slope and drain to the detention pond. The pond would handle detention and water quality aspects. A storm detention vault is located between the pharmacy and the retail building for the capture and treatment of storm water in the front parking lots.
 - b. Water Line System Distribution: A preliminary water line system is shown connecting off the existing 16" waterline that runs along Old Carolina Road, and the waterline on Rt. 29. An 8" waterline system loops through the main site, with stubs going to each building. Laterals for fire sprinkler and water would be required. Fire hydrants are periodically located.
 - c. Sanitary System Distribution: There is an existing 8" sewer line that runs along the frontage of the property and up along Old Carolina Road. Sewer main will system is shown to each building as shown on the conceptual utility plan and will connect into this existing system. Per Ed Kovalchuk of PWC, a sewer capacity study will be required at the time of any re-zoning in order to determine capacity of the sewer system as it crosses Rt. 29, where the 8" sewer line steps up to a 12" line.
 - d. Electric and Telephone Distribution: Verified by field investigations, an overhead electric line and cable line exist along the Rt. 29 frontage of the property and on the property side of Old Carolina Road. Due to the anticipated road widening that would be required, any development of the subject site should anticipate relocation of the overhead utilities along both Old Carolina Road and Rt. 29. Internal of the project, electric and phone are shown on the Conceptual Utility Plan as being looped around the pharmacy, retail and anchor building. Utilities for the bank would come directly off Rt. 29. Conduits would be needed under any paving.

- e. Gas System Distribution: There currently exists a gas main that runs along the opposite side of Rt. 29 along the frontage of the Shops at Stonewall Commercial Site Plan (PWC Plan #007-00226). Gas service would need to be bored under Rt. 29 to be brought to the property. Gas route would be similar to that of the power and phone line services.⁽⁴⁷⁾

Estimate: ^{(5)(11)(11a)(48)}

Commercial Plans: Many sources were used as a basis for developing the commercial construction estimate. Pricing estimates are based on sources outlined below.

1. Land: Land basis estimate values come from the comp analysis. Per discussion with Kelly Nagel, Manager of Financial Services for Regency Centers, the Title cost is \$0.75 per \$1000 of total project. Transfer taxes are approximately \$3.33 per \$1,000 of land costs. Per discussion with Devin Corini, Vice President of Investments for Regency Centers, the commission/brokerage fee for the land seller's broker would be approximately 5% of the land costs.
2. On-site and Off-Sitework Costs: the cost estimate here is based on the construction estimate furnished by LF Jennings (See **Appendix 5**) based on the 7721 Old Carolina Road Conceptual Utility Plan dated 11-11-2010. Costs can vary based on means and methods and the final plan aspects of the project. A grading plan would need to be further developed to further refine the project estimate values. As no geotechnical information was available, an allowance for rock removal and manipulation was incorporated into the estimate based on LF Jennings recommendation and experience in constructing the Shops at Stonewall site across the street. Further geotechnical analysis is warranted during an initial study period.
3. Permits and Fees: A permit fee schedule estimate is provided for Scenario 3 in **Appendix 25**. Fees and utilities are based on the PWC Land Development, Building Development, and Prince William County Service Authority Fee Schedules.⁽⁵⁰⁾⁽⁵¹⁾⁽⁵²⁾
4. Building Costs: Building costs for the Anchor and small shop inline building is based on the LF Jennings provided budget estimate. Estimate for the pharmacy is based on the actual building costs for a Walgreens in Kulpsville, PA that was constructed by Regency Centers.
5. Tenant Improvement, Leasing Commission, and Vacancy Assumptions: These values are based on discussion values with Kelly Nagel of Regency Centers, assuming a white box delivery.⁽⁴⁹⁾
6. Rents & Reimbursements: See estimated rent section in following section.
7. CAM and Operating Expenses: The pricing here is based on parametric estimated costs per discussions with Juan Valle, Property manager for Trimark Corporation and Keith Lebor of Regency Centers. A management fee of 5% is utilized for this estimate.⁽⁵³⁾⁽⁵⁴⁾
8. Architecture: Budget estimate is provided based on parametric numbers used during the Development of the Shops at Stonewall by Regency Centers.
9. Civil: An estimate is based on values confirmed by Mark Joyce of Bohler Engineering.⁽⁴⁸⁾
10. Other Consultants, Legal, and Miscellaneous Expenses: Budget based on numbers developed in conjunction with Don Stedham and Kelly Nagel of Regency Centers.⁽⁴⁴⁾⁽⁴⁹⁾
11. Financing: ⁽⁴⁹⁾⁽⁶²⁾⁽⁶³⁾
 - a. Construction loan is underwritten to be set up at the lesser value of the minimum of 80% of loan to cost, or 70% of loan to value for a term of 2 years at an interest rate of 6.3%. Construction loan interest rates, current at the 2 year libor (0.64) plus 3.0 to 4.0% (4.64%), would need to be negotiated based on the finalization of the development program. A

- conservative 6.3% interest rate is used as that is the current interest rate that Regency is underwriting on future developments per Kelly Nagel.
- b. Permanent Loan is underwritten at a 70% LTV on a 30 year loan with an interest rate of 6.2%.

Residential Analysis: ⁽⁵⁵⁾ A preliminary subdivision layout for a residential analysis was prepared by Christopher Consultants dated 10-24-2005 which has 21 lots that are approximately 1/3 of an acre. Based on this layout, a preliminary cost estimate and pro forma was developed using the design and pricing aspects furnished above. The scope of this is further detailed in **Appendix 24**.

FINANCIAL ANALYSIS

Supply vs. Demand Methodology

The supply and demand analysis has been conducted for shopping centers within the respective trade areas surrounding the subject site. The analysis utilizes census projections, TAS demographic information, geographic mapping and primary research of existing and future competitors. I have determined the viability of both forms of retail use at the subject site by utilizing:

1. A thorough list of existing and future retail shopping center uses.
2. Projected population, demographic, income, occupation type, and consumer data based upon a one, three, and five mile radii using 2000 census information with 2015 projections.
3. State and County information for sales per unit, annual sales, and sales per capita income
4. Traffic counts and flow patterns relating to site analysis
5. Existing rent levels and projected rent based upon property use.
6. Forecasted operational expenses and Tenant Improvements necessary to realize uses.
7. Analysis of location quotient, capture rate, and absorption to predict feasibility and differentiating use (shopping centers)

Given all of the factors previously mentioned in the study, an anchor center shopping center is the best use for the subject site considering size of the site, location, traffic counts, and neighborhood uses. In order to accurately assess the viability of this undertaking, it is crucial to analyze the surrounding demographics of the trade area to determine the spending habits and income of the inhabitants within our defined boundaries. Once determined, the focus relies on the current and projected data relating to the number and size of establishments and the trade area gap that we believe makes this projection profitable.

Interviews with several brokers that operated in these markets informed that many deals are in the works in this market, in particularly at the Shops at Stonewall and Virginia Gateway shopping center. With limited information on what deals are actually closed and going forward, the analysis leaned on the trade gap analysis, rather than other methods.

Demand Analysis ⁽¹³⁾

Within a five mile radius of the subject site, the population is approximately 48,489 people with projections to go to 66,407 by year 2015. This 6.49% annual growth rate represents a strong growth aspect for the area around the site.

Using the latest census data and TAS projections, it is projected that the growth rate in the 5 mile area around the site will grow at a 6.49% annual rate to 66,407 people, using a conservative growth rate of 1.6% annually to match that of projected future growth rate of PWC over the same period from 2015 to 2030, it is estimated that the local population in the five mile vicinity of the subject site will be approximately 83,736 people.

In 2009, ICSC estimated that the national ratio of retail to population grew to 23.1 sf per person. In the years 1994, 2000, and 2004, the ratio of retail shopping center square foot to population was 19.91, 21.24, and 21.77 respectively. The apparent over building of retail shopping center in the late 2000's

appeared to have pushed this ratio to a new high for the U.S. As such, there appears to be an apparent large excess of retail on the market, evidence by the national retail vacancy rate reaching 12.2% in the 3rd quarter of 2009. Though there is no set rule of thumb for determining appropriate levels of density, for purposes of this analysis, a rate multiplier of 22 sf per capita is being utilized. This rate is utilized as it slightly less than what is available as a national average.^{(40) (41)}

To account for the market leakage and absorption from the secondary market, the Gainesville Rt. 29 area is serving as a market hub for retail shopping centers in the area. Due to the extended retail secondary market extending as far away as Warrenton and out-lying regions of Fauquier County, a 60% increase absorption factor has been applied to the required estimated absorption calculation to the market area from other markets. This is adjusted to 55% in 2015 and 50% in 2030 to account for a decrease in the trade area demand as competing developments are completed in other markets that reduce this secondary trade area draw outside the 5 miles of the property. The initial 60% factor was also adjusted based on the estimated existing 6.4% market vacancy. This absorption factor from the secondary markets outside of 5 miles is particularly due to the size and anchor mix of the power centers at Virginia Gateway and Shops at Stonewall, where it appears that those two shopping centers draw from a wider development area of approximately 5-10 miles. The subject site has the ability to play off the synergy created from the Shops at Stonewall retail power center located directly across the street.

Based on these calculations, it is estimated that 1.707 M sf of commercial retail is currently warranted, and 2.265 M and 2.763 M sf of retail shopping warranted in the years 2015 and 2030 respectively in the surrounding area. Currently, it is estimated that 1.817 M of existing retail/shopping center sf exists in the corridor. Based on the projected demand profile created in this calculation, a minimal amounts of new retail would need to be constructed until 2015 (446,519sf), with further demand by 2030 (945,328sf) in the corridor could be absorbed into the market area. With the development of an additional 80ksf of shopping at this site that would come on-line the end of 2013/early 2014, it would be anticipated that a 4.5% increase in retail area at the subject site would be absorbed into the market. Further development considerations should involve monitoring the further development of other competing properties in this market sector.

Calculations for the demand and trade gap analysis are further outlined Table 2 below:

TABLE 2 - TRADE AREA GAP ANALYSIS:	YR 2010	YR 2015	YR 2030
Population (5 mile)	48,489	66,407	83,736
Shopping Center SF Per Capita ⁽⁴⁰⁾	x 22.0	x 22.0	x 22.0
Subtotal (SF)	1,066,758	1,460,954	1,842,192
Secondary Market Multiplier	x 1.6	x 1.55	x 1.5
Potential Demand for Retail/Shopping Center (SF)	1,706,813	2,264,479	2,763,288
Est. Current Retail in Primary Trade Area (SF)	1,817,960	1,817,960	1,817,960
Future Retail Demand Requirement (SF)	-111,147	446,519	945,328
Est. vacancy in the market in Nov 2010 (6.4%)	-116,000		

Derivation of Achievable Rents

Access to comparative information for locations in the primary and secondary trade areas was a significant challenge in developing the study. Multiple requests for information were done from shopping center operators in the community, with a limited amount of information being made available.

The best data came from information provided by Regency Centers and searching the web for publicized rate information. The selected sites used for comparables were very similar in quality and characteristics to what is proposed and rents were adjusted to reflect discussion and market input from key leasing managers in the industry.

1. **Anchor Rents:** In August 2010, Regency Centers development team (including John Fitzpatrick) was investigating the addition of a 55,000sf Kohl's into the addition of Shops at Stonewall. A copy of a letter of intent for a proposed site in Haymarket, VA is included as Appendix 4. Based on discussions with Devin Corini, Vice President for Regency Centers, Kohl's based anchor would pay approximately \$11.60/sf on a NNN build to suit, with approx \$300K an acre for site contribution, leasing commissions at \$2-3/sf to the tenant broker. If Kohl's were to construct their own building, rents would be approximately \$450k for a 64,000sf building. It should be noted that Devin Corini was a broker with KLNK representing Kohl's in the market prior to his employment at Regency Centers in the Summer of 2010. Per Devin Corini of Regency Centers, market rents in the \$11-\$14, which could be used as a basis for a BTS for a Toys/Baby-R-Us scenario. In 2008, Regency Centers was pursuing a fitness center on an adjacent parcel. An LOI with LA Fitness was negotiated with NNN rents around \$19/sf on a 45,000sf building. ^{(34) (44) (4)}
2. **Bank Rents:** During the course of this project, a Preliminary Letter of Intent for Fauquier Bank (See **Appendix 10**) was negotiated with Coleman Rector, of the Rector Companies representing Fauquier Bank as their broker. A ground rent of approximately \$300k with design reimbursement of \$60k was preliminarily agreed upon. Per discussions with Regency Centers, bank rates at the Shops at properties in the area were previously negotiated in the area in the low \$300's to mid \$400's, though the upper end of those rates would not be achievable in the current market. Initial term would be 20 years with additional option periods. ⁽¹⁰⁾⁽⁴⁴⁾
3. **Fast Food Rents:** Per discussions with Don Stedham of Regency Centers, fast food pad rents could be achieved for a ground lease of \$100k to \$125k with only providing a rough graded 1 acre lot. Rents would bump every 5 years. ⁽⁴⁴⁾
4. **Pharmacy Rents:** Per discussions with Don Stedham of Regency Centers, a recent Walgreens build-to-suit was done in 2009 in a suburb of Philadelphia. Rents achieved here were approximately \$450k flat annually for 20 years. This pricing would be assumed comparable based on a proposed development at the subject site. ⁽³⁴⁾
5. **In-Line Retail Rents:** Per Regency Centers, small shops at the Shops at Stonewall were leasing between \$26 and \$29 on average per square foot. Rents for vacancy at the Virginia Gateway Atlas Walk Way are current advertised between \$25 and \$30 per square foot. Rents for vacancies at Somerset Crossing are currently being marketed at \$30 per square foot. It is recommended that a rent around the mid to high twenties (use \$26) per square be conservatively be estimated for this project. ^{(44) (57) (58)}

Land Price Evaluation

Commercial: In the study of land values in Prince William County, our research was able to obtain from KLN B Retail a market study of land values of Prince William County (See **Appendix 15**) which comprised a map and summary of all the land transactions in Prince William County, between 2002 and 2006. Additional research from Research of the Shops at Stonewall project land values was obtained during the course of this analysis. As very little, if any, land transactions happened between 2008 and 2009, the current information supply data from this period was not viewed as a hindrance in this study. In reviewing the land values in Prince William County, a wide range in land pricing resulted. A summary of comparable land transactions in the market is outlined in the Land KLN B Value Comp Study for Gainesville / Haymarket, VA Area as shown in **Appendix 15**. From this analysis, it is recommended for initial underwriting purposes to use a land value of approximately \$225,000 to \$275,000 range for developable acreage. Per an initial discussion with David Phippen of Norman Realty, it was advised that the seller's "land value is negotiable", and that the marketed \$8 million dollar number is not realistic of the current market conditions. The property is currently being marketed by Norman Realty. A property listing is located in **Appendix 1**.⁽⁵⁹⁾⁽⁶⁰⁾

Residential: A preliminary review of land values and recent sales of housing in the Gainesville market, it is projected that the typical house constructed at the subject site would be a 2500sf house with 4 bedrooms, 3.5 baths, and a 2 car garage with a resale value of approximately \$390k. A property comparison analysis for sales is shown in **Appendix 24**.⁽⁶¹⁾

Pro Forma Analysis

Preliminary Discounted Cash Flow (DCF) analysis for the project was analyzed for a proposed project development. Multiple scenarios and timing were reviewed for the project as outlined below in Table 3. Using an unlevered return parameter of 200 basis points between the development return yield and the exit cap rate (Projected conservatively to be approximately 7.5% in the current market)⁽³⁴⁾, only scenarios 1-4 meet that threshold, with Scenario 5 being close enough that further investigation into this option could be warranted. Scenario 6 is a residential analysis, and based on the lower calculated sale value to the seller to meet a reasonable return of an IRR of 25%, this option is viewed as not the best opportunity for the project due to the low land value that could be afforded to the seller. Leasing and marketing for all aspects need to be further pursued during the initial investigation period. Pro forma analysis for the six (6) scenarios are provided in **Appendix 19-24**.

A going-forward project analysis and development plan will be based on the development team enacting Scenario 3. Scenario 3 was selected due to the overall equity requirements, a guaranteed development hurdle, and an option where the land seller can achieve the highest land value (making it easier to close the land deal).

TABLE 3	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Description	55k Anchor GL, 9600sf Retail, Bank, Pharmacy	55k Anchor GL, 9600sf Retail, Fast Food, Pharmacy	55k Anchor GL, 9600sf Retail, Bank, Pharmacy*	55k Anchor BTS, 9600sf Retail, Bank, Pharmacy	45k Fitness BTS, Bank, Pharmacy	Residential, Subdivide & Sell 21 Lots
Land Value	\$ 2,250 K	\$2,250 K	\$ 500 K	\$2,250 K	\$2,250 K	\$1,125 K

Total Project Costs	\$11,724 K	\$11,461 K	\$9,900 K	16,205 K	\$16,493 K	\$2,788 K
NOI	\$ 1,312 K	\$ 1,126 K	\$ 1,312 K	\$1,546 K	\$1,507 K	NA
Yield	11.2 %	9.8 %	13.2%*	9.54 %	9.14 %	NA
Net Profit (7.5 Cap)	\$ 5,429 K	\$3,252 K	\$ 7,254 K	\$4,002 K	\$ 3,210K	NA
Levered:	Min of 80%LTV, 70%LTC, i = 6.2%, Sale in 2017					80% LTV
Before Tax IRR / NPV @ 10% Hurdle	70.7 % / \$4,059 K	45.4 % / \$ 2,507 K	103.6% / \$5,330 K*	42.2 % / \$3,103 K	35% / \$2,416 K	25.5% / 58 K
Equity Required	\$ 2,345 K	\$ 2,292 K	\$1,980 K	\$3,241 K	\$3,299 K	\$557 K
(*) – Assumes landowner becomes a partner in the deal. Similar overall returns as Scenario 1 is anticipated						

Scenario 1 – Under this scenario, it is assumed that the a 55,000sf anchored Kohl’s (or similar) ground lease at \$400k, 9600sf speculative in-line retail with an average rent of \$26psf, a build-to suit pharmacy at \$450k annual rent, a ground lease bank pad at \$300k, and a land value of \$2.25M is utilized for the development. Development costs spent in an initial study period is approximately \$50,500. Entitlement costs projected to get through re-zoning are approximately \$198,000 and an additional \$402,300 to get through site plan approval. This is a total of approximately \$650,800 required to get through the site plan approval process to have the ability to start construction. It is anticipated that with a study period beginning in January 2011, that anchor, bank and pharmacy opening would happen in the fall of 2013, with the retail opening throughout 2014.

Scenario 2 – This scenario is the same as scenario 1, except that a fast food restaurant rent at \$110k is proposed in lieu of the annual bank pad rent at \$300k. Total project costs thru the study period (\$50,500), rezoning (+\$218,000), and site plan (+\$402,300) is \$670,800.

Scenario 3 – This scenario is the same as Scenario 1, except that a land value of \$500k is utilized. With a current 2010 assessed land value is \$435,900, it is assumed that the seller would sell/contribute the value of the Land into a joint venture partnership for an equity distribution. Total project costs thru the study period (\$50,500), rezoning (+\$218,000), and site plan (+\$402,300) is \$670,800.

Scenario 4 – This scenario is the same as Scenario 1, except that the anchor construction will be a build-to –suit here in lieu of the ground lease. Total project costs thru the study period (\$50,500), rezoning (+\$198,000), and site plan (+\$517,300) is \$765,800.

Scenario 5 – In this scenario, a 45,000sf fitness center build-to-suit, pharmacy, and bank pad are projected for this site. In 2007/2008, Regency Centers had looked at put a fitness center in the market, but that deal aspect ended due market conditions. The retail building in previous scenarios is not removed to add additional parking to meet the increased parking demands of a fitness center. Total project costs thru the study period (\$50,500), rezoning (+\$198,000), and site plan (+\$498,500) is \$747,000.

Scenario 6 – Under this scenario, it is anticipated that the property will be divided into residential lots of a density of .25 to .33 acres and sold individually. Desired density under the current long range master plan is 2-4 units per acre. With land sale values per developed lot averaging \$390k,

less building construction costs of \$107psf on a 2500sf building, proffer/meter/misc fees of \$30k per unit, the net profit per house lot is estimated to average \$92,500 (excluding development costs of \$1,166,071). It is preliminarily projected that the site plan process will be completed in 2012 and construction infrastructure in early 2013, it is projected that 60% of the lots would be sold in 2013, 25% sold in 2014, and 15% sold in 2015. ⁽⁶¹⁾

MANAGEMENT & LEASING STRATEGY

The development project will be managed by John Fitzpatrick, through the establishment of FitzDevelopment, Inc. With over 8 years of retail developing experience in Prince William County, John is well verse with the local jurisdiction process in the County. A seasoned development team will be put together inclusive of Walsh, Calucci, Lubeley, Emerich and Walsh (Legal Land Use), H&R Realty (for third party leasing), Bohler Engineering (Civil), and Bignell Watkins Hasser (Architecture). On-going property management would be performed by TriMark Corporation.

DISPOSITION STRATEGY

In reviewing the commercial opportunity for the project, it is projected that the anchor will open in the Fall of 2013, and the project will reach stabilization (95%) in 2014. A permanent loan will be put into effect on the property in January of 2014. It is anticipated that this property will be held and remain in ownership by the Property Corporation Entity with a perspective sale in 2017 utilized for underwriting purposes. A 7.5% discount rate is applied to the project. Though this rate is high compared to historic sales as shown in **Appendix 15** (Shopping Center Sales Comps 2004-2008) in the area, it is relatively conservative approach in line with what investors and developers are looking at in the current commercial environment. ⁽³⁴⁾

CAPITAL SOURCES

Multiple capital sources are available for the project to raise equity. A few of these options are outlined below, and would be further determined during the development initial study period. For the development program of this project, the development team will be proceeding under Option 1. A construction loan would be obtained from a bank and converted the loan over to a permanent loan at stabilization. Tax analysis is excluded from this analysis and it is assumed that each investor will pay taxes on any cash distribution based on their current tax aspects.

Option 1 - The first option would be to Joint-venture with current land owner, Zetlin Irvine R. Trust, putting the subject into a corporate entity where land becomes the collateral for the construction loan. The approximate \$650k (Scenario 3) in development costs prior to site plan approval would be borne by a multitude of investors, with the Development team contributing 10% of any required equity (\$65k) and outside investors contributing the balance (Approx \$585k). Return aspects and full analysis of this scenario is further described in **Appendix 21**.

Option 1 Payment Structure	Equity Req. Pre-Develop	Equity Req. Const	Split of Rent, Sale proceeds	NPV of Investment @ 10% Hurdle
General Partner #1 (18 Investors)	\$ 585,720	\$ - 0 -	24%	\$1,581,263

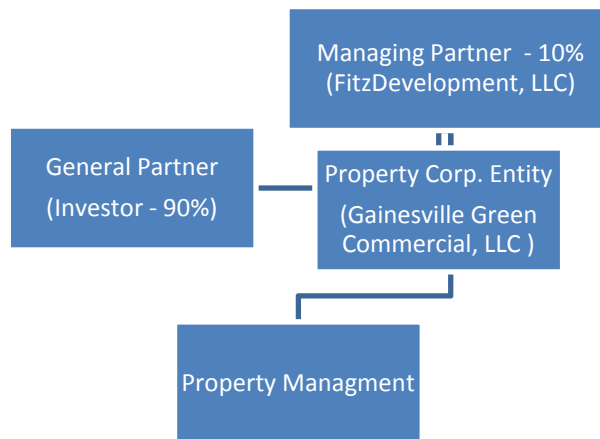
General Partner #2 (Land Owner)	\$ -	\$ 1,980,125 (Land)	60 %	\$4,466,629
Managing Partner (FitzDevelopment)	\$ 65,080	\$ - 0 -	16%	\$1,077,366 (Less Dev actual costs)
	\$650,800	\$ 1,980,025	100%	

Option 2 – A series of General Partner Investors would be organized offering a 10% preferred hurdle return with 50% split on any earning above the 10% preferred return going to the investor and 50% split going to the managing partner.

Option 3 – A joint venture would be established with an outside REIT or development corporation.

CORPORATE LEGAL STRUCTURE

A limited liability corporation, FitzDevelopment, LLC would be established for operations of the Development Team. A separate limited liability corporation would be set up for the actual ownership of the property (Gainesville Green Commercial, LLC). Ownership of the property specific entity would be organized by 100 shares distributed according to the development agreement. FitzDevelopment, LLC would be the managing partner of the property LLC and the investor(s) would be the general partner for the property. The land seller would act as a general partner through the development process.



DISCUSSION

Market Strengths and Weaknesses Impacting Project

Economic weakness due to the current recession has impacted the project by reducing potential ground rents for subject pads, and slowed the expansion models for anchors. With land owners still having expectations of high market property values from 2007/2008, a new reality on land value corresponding with the current or projected future evaluations has not truly set in. On the other hand, these same forces have also leads to strict financial requirements that reduce the amount of potential development and new competition in the area. With local employment buffered by the presence of the Government, 2010 vacancy in the Gainesville market at much lower rates than the State or US national averages, projections for strong residential growth in PWC and the Gainesville

market, high income demographics, and high traffic counts in the trade area due to the commuting nature of the area, the market has considerable strengths that positively impact the project.

Having the retail demand generated from the Shops at Stonewall regional service shopping center directly across the street, the site's book end position of the retail density to the southwest, and having a close proximity to a substantial amount of residential development, the development is well positioned in the market. With most of the anchors in the market being already located here, especially grocery stores, and the subject site size not large enough to accommodate the larger footprints of many of the larger anchors, only a limited number of anchor and commercial options would fit onto the site.

Subject Property's Impact on the Market

With a development of approximately 81,600sf at the subject site, this additional 4.5% of retail into the market would have minimal affect on retail in the trade area given the size of the market. As there are a number of proposed developments in the trade area, any development processes should continue to monitor and take into consideration the market and commercial demand dynamics.

Risks or Other Mitigating Circumstances Impacting Project.

There are many risks associated with this project. Some of these development risks are:

1. Scenario in which the development does not receive zoning or special use permit approval. An estimated \$600-\$700k in development costs would need to be written off.
2. Development risk in land negotiations.
3. Development risks associated with Re-zoning, Special Use Permit, Processes where entitlement and infrastructure demand aspects could be added to the site.
4. Risk that waiting out the rezoning process as part of and overall comprehensive rezoning of the Gainesville Green area would create a scenario where the development team would miss an opportunity to land any required anchor looking in the market to that of other development sites.
5. Leasing risks associated with tenants not going forward with a development deal.
6. Opportunity costs associated with locking in long-term ground rents during a period of economic weakness.
7. Competitive environment in the market place.

RECOMMENDATION

It is recommended that FitzDevelopment, Inc. move forward with the project under a development Scenario 3 (Scenarios 1-5 are all viable) and meet with the land owner and broker to negotiate a land development agreement and finalize a PSA and JVA. Development under Scenario #3 is the preferred development method and would limit the development risk and greatly reduce the equity requirements required to develop the project. Following a successful land purchase agreement negotiation, FitzDevelopment should further proceed with a due diligence and study period for the site. Following a successful due diligence evaluation, we should proceed further with a development plan following a further evaluation at the end of the study period and get the required equity to complete this deal.

OTHER REQUIRMENTS

Report Details – Preparation Date, Dates of Field Work, Analyst Information

The report data and market research was compiled by John Fitzpatrick from October 2010 to December 2010. A field inspection to the site and area was completed on November 30, 2010.

Certifications

John Fitzpatrick makes no certification as to the viability and reliability of the subject data drawn upon in the preparation of this report. Information was gathered from a number of sources and John Fitzpatrick is relying on the accuracy of this data in preparing and making recommendations. Information and recommendations are based on the limited project scope. Further evaluation of many points of this study is further warranted. This study is prepared for the sole and express purpose of a project thesis in connection with John Fitzpatrick's participation in Johns Hopkins University and is not to be used for any other purpose.

Statement of Qualifications

John Fitzpatrick is a professional engineer licensed in the Commonwealth of Virginia. In addition he is a LEED AP and a graduate of Marquette University in 1999 in civil engineering. John is currently pursuing his Masters in Real Estate at Johns Hopkins University Carey School of Business. John is currently employed for Regency Centers as a Senior Project Manager, and has worked there since 2002.

Sources of Data

- (1) Griffin, Stephen K. (July 21, 2010). County of Prince William: 2010 Initiation of Comprehensive Plan Amendments dated July 21, 2010 Gainesville Green CPA#PLN2010-00254. Prince William County.
- (2) Burnzynski, Fran. (February 22, 2010). PWC Staff Report for Special Use Permit #PLN2007-00798; Shops at Stonewall Pad J – Financial Institution with Drive-Through Lanes dated February 22, 2008. Prince William County.
- (3) Burnzynski, Fran. (February 22, 2010). PWC Staff Report for Special Use Permit #PLN2007-00818; Shops at Stonewall Pad K - Financial Institution with Drive-Through Lanes dated February 22, 2008. Prince William County.
- (4) Cairns, Patrick B. (September 27, 2010). Letter to Brad Dumont: Kohl's - Proposal for lease of premises in [] Shopping Center, Haymarket, Virginia dated September 27, 2010. Kohl's. Menomonee Falls, WI.
- (5) Harleman, Scott. (November 15, 2010). 7721 Old Carolina Road Building D Site Budget 11-15-10, 7721 Old Carolina Site Budget 11-15-10 Building A-B and Offsite Work; 7721 Old Carolina Building C Site Budget 11-15-10. LF Jennings.
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